



April 12, 2019

Dear Shareholder:

It is hard to believe Pegasus is in its 13<sup>th</sup> year of operation. I will get to our unparalleled financial success below, but first I want to address some of the most impressive parts of the journey. First, is our history as a magnet for quality customers in all our business sectors—personal, commercial, and energy. This achievement is not a mystery; it was our plan from the day we opened in 2007 and we remind ourselves every day that we are agnostic whether clients are borrowers or depositors as long as they are low risk and high quality.

Second, how has the focus on quality worked out for the bank? Let's take a look at recent net income growth and related ratios:

	<u>Net Income growth</u> <u>Over prior year</u>	<u>Return on</u> <u>Assets %</u>	<u>Return on</u> <u>Equity %</u>
FY 2016	+46%	.81%	11.31%
FY 2017	+25%	.81%	12.36%
FY 2018	+45%	1.13%	15.52%
Q1 2019	+32%	1.30%	17.03%

This success comes from only one source: happy, repeat clients who tell their friends that Pegasus is a great banking experience.

Another important bank metric that goes unnoticed and underappreciated is bank liquidity. Liquidity is a fundamental component of RISK. We have the philosophy that we will sacrifice a few dollars of profitably to maintain a high degree of liquidity; this is simply a sound banking practice. It is interesting that we are achieving both high performance and maintaining high liquidity. I see many banks today seeking higher profitability by pushing up their loan-to-deposit ratio and becoming dependent on "undependable, alternative, non-core funding sources." This practice has proven problematic in the past (circa 2008-10). The following is the loan-to-deposit ratio history for Pegasus:

	<u>Loan/Dep %</u>		<u>Loan/Dep %</u>
YE 2012	57%	YE 2016	65%
YE 2013	58%	YE 2017	65%
YE 2014	67%	YE 2018	63%
YE 2015	74%	Q1 2019	65%

How has our conservative philosophy on banking low risk, high quality customers and maintaining a low loan-to-deposit ratio affected another key bank metric: net interest margin, or more specifically, the improvement in our net interest margin:

	<u>Interest margin</u>		<u>Interest margin</u>
YE 2014	2.91%	YE 2017	3.41%
YE 2015	3.12%	YE 2018	3.62%
YE 2016	2.87%	Q1 2019	3.64%

The financial results for the first quarter 2019 were excellent. Total assets grew \$79 million or 14% over the same period 2018. Loans increased \$50 million or 15% and total deposits increased \$72 million or 14%. Of the \$72 million of deposit growth, non-interest-bearing deposits represented \$49 million, which is 30% higher than last year. Of the \$50 million in year-over-year increase in loans, approximately \$30 million of the increase is from the Energy Department that started last summer. Net income was \$1.99 million which is an increase of 32% over Q1 2018. Please review the enclosed Q1 2019 financial statement for all the details.

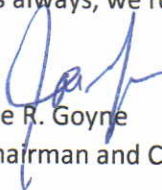
The banking landscape in Dallas is very competitive. There are many characteristics that separate Pegasus from the others, but the one you should be most proud of is knowing that our employees come to work with exemplary training and dedication and with one very important mindset: "doing the right thing for our customers every time, every day." Whether the discussion is deposit rates, creating last minute wire transfers or technology improvements, our employees will always do the right thing for the customer.

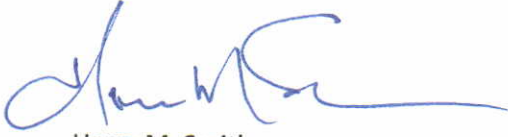
The enclosed buck slip is a reminder of our robust Treasury Management System. This system is just one piece of our suite of commercial deposit products which include: lockbox, corporate credit and debit cards, merchant card services, sweep functions, foreign exchange currency, and the most affordable commercial account in Dallas. The reason we enjoy such strong commercial deposit growth and an envious mix of non-interest deposits to total deposits is our ability to integrate this suite of products with our superior customer service.

We had a great turnout at the annual shareholders' meeting a few weeks ago; thank you for attending and for your questions.

As always, your interest in the bank is appreciated and, remember, our future success is dependent on your continued support and referrals.

As always, we remain your obedient servants,

  
Joe R. Goynes  
Chairman and CEO

  
Harry M. Smith  
President

**PEGASUS BANK**  
**MARCH 2019**  
**(unaudited)**

<u>Avg Balance Sheet</u>	<u>3/31/2019</u>	<u>3/31/2018</u>	<u>% Chg</u>
Cash & Equivalents	\$ 12,821,708	\$ 15,737,139	-19%
Investments & Fed Funds	225,906,033	197,515,225	14%
Gross Loans	370,157,242	320,518,750	15%
Loan Loss Reserve	(3,097,525)	(2,885,106)	7%
Net Loans	<u>\$ 367,059,717</u>	<u>\$ 317,633,644</u>	16%
Fixed Assets	19,013,085	15,689,631	21%
Other Assets	3,544,532	3,231,667	10%
Total Assets	<u><u>\$ 628,345,075</u></u>	<u><u>\$ 549,807,306</u></u>	14%
Non-Interest Deposits	214,361,485	165,039,834	30%
Interest Bearing Deposits	<u>364,182,056</u>	<u>342,342,316</u>	6%
Total Deposits	<u>\$ 578,543,541</u>	<u>\$ 507,382,150</u>	14%
Other Liabilities	1,473,038	1,363,286	8%
Total Liabilities	<u>\$ 580,016,579</u>	<u>\$ 508,745,436</u>	14%
Equity Capital	<u>\$ 48,328,496</u>	<u>\$ 41,061,870</u>	18%
Total Liabilities and Equity	<u><u>\$ 628,345,075</u></u>	<u><u>\$ 549,807,306</u></u>	14%
<u>Ratios: (Monthend)</u>	<u>3/31/2019</u>	<u>3/31/2018</u>	
Loan to Deposit Ratio	65.03%	63.31%	
Tier 1 Capital to Assets	7.77%	7.61%	
Ln Loss Reserve to Loans	0.83%	0.92%	
Book Value per Share	\$11.41	\$9.70	
Return on Avg Assets YTD	1.30%	1.15%	
Return on Avg Equity YTD	17.03%	15.20%	
<u>Income Statement</u>	<u>3 mos. YTD 2019</u>	<u>3 mos. YTD 2018</u>	<u>YTD % Chg</u>
Interest Income - Invest.	\$ 1,237,652	\$ 883,360	40%
Interest Income - Loans	5,125,064	3,856,157	33%
Total Interest Income	<u>\$ 6,362,716</u>	<u>\$ 4,739,517</u>	34%
Interest Expense	971,203	372,354	161%
Total Interest Margin	<u>\$ 5,391,513</u>	<u>\$ 4,367,163</u>	23%
Non-Interest Income	\$ 291,079	\$ 257,269	13%
Personnel Expense	1,969,964	1,602,832	23%
Occupancy Expense	435,013	299,732	45%
Other Expenses	755,919	741,481	2%
Total Expenses	<u>\$ 3,160,896</u>	<u>\$ 2,644,045</u>	20%
Loan Loss Provision	<u>\$ -</u>	<u>\$ 70,000</u>	-100%
Net Income Before Tax	\$ 2,521,696	\$ 1,910,387	32%
Income Tax	526,518	396,300	33%
Net Income	<u><u>\$ 1,995,178</u></u>	<u><u>\$ 1,514,087</u></u>	32%